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JUNE 1976



What stronger breastplate than a heart untainted



OFFICE OF AUDIT

U.S. DEPARTMENT OF AGRICULTURE

NINE/NINE

“INTEGRITY”



We use that word with almost cliché monotony. Therein lies a danger. By its very repetition it may tend to lose its significance. This should never happen!

“Integrity”

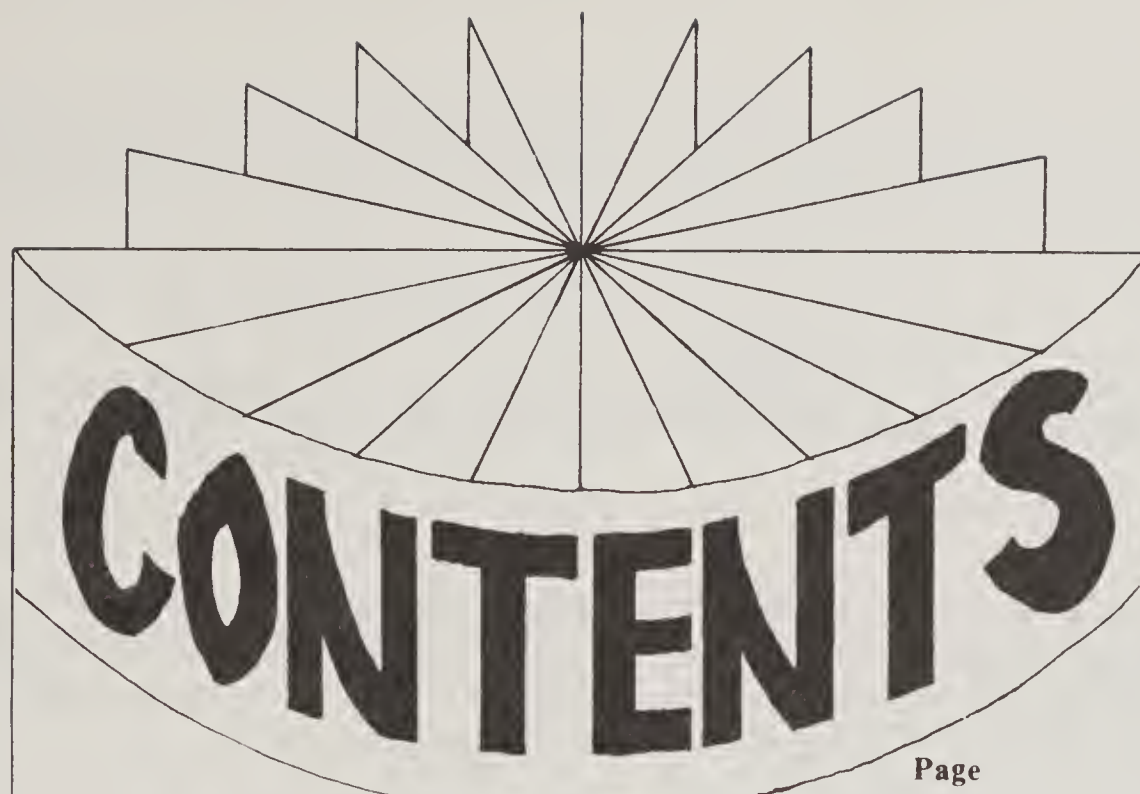
In its simplest terms, it is a sensitivity to the difference between right and wrong, a sense of prudence,——a sense of propriety.

“Integrity”

It derives from pride in one’s undertaking. Among *us*, it should mean that everything one does or says has the ring of truth, credibility, and trustworthiness. Among **us**, there can be nothing passive about it. On the contrary, integrity must be almost aggressively self-evident! demonstrating conviction! begetting respect!

Integrity is the result of adherence to a code of conduct which is above reproach. Adherence to a code is personal. It is a levy upon the individual. The demands of a code for moral rectitude are personal - individual faithfulness to a code is personal, thus, integrity requires personal management,—management of our habits, our performance, our speech and our attitudes. It is a personal responsibility that must be exercised at all times, not just during business hours - for we are always within the focus of the public lens. We are being photographed continuously in the public mind. And since public service is our mission, our public image must be of concern to us.

The personal “correctness” which integrity stimulates in each of us will produce the necessary collective “correctness” in the Office of Audit.



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June 1976

*There can be no better dedication for this issue of PULSE than "To
our country; To the Women of our Organization"*

WELL, IT FLOWS, DOESN'T IT?

In a well meaning attempt to resolve the problem, **The Institute of Internal Auditors** published "An Evaluation of Selected Current Internal Auditing Terms" (Research Report No. 19, 1975). It was a nice try. The main problem with the research effort was that it stopped short of what we expected. To fill the void we here offer (in no particular order) our glossary of generally accepted terms related to audit and whatever.

Overrun - (1) final phase of all normal audits; (2) driving past the audit site, a turnaround and return.

Randomly Selected Audit Sample - Those items selected for review for which the auditor has prior knowledge of the existence of adverse conditions.

Evaluation - See Analysis.

Coordinated Audit - Situation where the auditor coordinates his time of arrival with a pre-arranged reservation at a motel.

Test-Check Method - "I did it my way fellah, mind your own business."

Verification - Asking the auditee if that which he has written on various forms and records is true.

Entrance Conference - Process for establishing the location of the best eating places in town, the quickest route to the restrooms and the marital status of that blonde secretary.

Exit Conference - Formal ceremony marking the end of the overrun.

Record Examination - Process whereby the auditor confirms the pre-determined findings.

Audit Report - A series of pages written by the auditor and made meaningful by the typographical errors of the secretary.

Work Papers - Compilation of miscellaneous jottings, usually on green or yellow legal sized paper, properly headed, cross-indexed, initialed and accoed neatly in manila folders.

Working Papers - Same as work papers except they are in transit from Temple, Texas to Washington, D.C. to be promptly lost by a Headquarters staffman.

Effect - Generally associated with fireworks on the 4th of July.

Cause - The guy with the match.

Condition - Lots of noise, fire and smoke.

Audit Bulletin - Same as Papal Bull but with all religious overtones removed.

Audit Guide - Same as Papal Bull but with added religious overtones.

Exhibits - Documents attached to beef-up audit reports from 3 to 123 pages.

Cross-indexing - Clever device used by auditors to move supervisory personnel from page 1 to page 450 of the work papers without the supervisor becoming remotely aware of the contents of pages 2 through 449.

Progress Report - Documents submitted 3 months after the audit has been completed and report distributed which explains why the audit is 22 work days behind schedule.

Work Days - In Headquarters this is a meaningless term, in the field there are 403 different interpretations; generally the interlude between 8:00 a.m. and 5:00 p.m. preceding the attitude adjustment hour (5:05 p.m. to 11:00 p.m.)

Audit Program - Advance list of audits that won't be done because of higher priorities, in other words, the coming attractions that never arrive.

Scheduling Guidance - Explains how to replace the planned audits in the audit program with higher priorities.

Review - "Recreational View" shortened to "re-view" and, ultimately, "review"; that which one sees while in a valley or on a plain.

Overview - The view one gets from the side or top of an elevation.

View - Review and overview are actually unrelated to audit, however, view is, but is spelled Vue.

ADP - A 1932 biblical epic movie starring Charleton Heston.

EDP - A 1974 biblical epic movie starring Charleton Heston.

Higher Priority - The most readily available item, to which a panic work or phrase can be attached, used as a substitute for something you never really wanted to do in the first place.

AIC - Audit-in-confusion.

Recommendation - The third section of a sonata form, or audit report, depending on whether one is playing a guitar or not playing a guitar.

Finding - "oops! sonnavava' gun."

Headquarters Staffman - A person who is always eager to put in a full day's work for a week's pay and who considers nothing impossible unless he has to do it himself.

Serendipity - Possessed by auditors who have the faculty of making fortunate and unexpected discoveries by accident, i.e., audit findings.

Audit - A major source of pollution.

Hierarchy - A division of angels.

The Editor - A hero of classical mythology noted for his great strength and especially for achieving twelve labors imposed on him by the hierarchy.

Prior Audit - Audit of a monastery or priory.

Oversight - Doing a scheduled audit.

Analysis - See Evaluation.

Auditor's Opinion - A departure from accepted beliefs or standards.

Objective - The ball hit by the cue ball.

Observation - A simple wind-instrument.

Control - A group of good guys opposed to Kaos.

Tick Marks - Small ornaments, usually in the form of unfinished triangles, placed at the bottom of columns denoting either correct or incorrect addition of the digits in the columns.

Conclusion - That which we have now reached.

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OUR CHANGING AUDIT ENVIRONMENT

—S. D. Jones, Jr.

Disenchantment

One thing that seems so apparent today is a larger degree of discontent or dissatisfaction by the public with their Government. From what I read it seems that much of this discontent stems from a belief that the Government has become so large that we have lost our ability to govern. Studies of trends in the public faith in Government show that the decline in public confidence started several years ago long before Watergate, or grain inspection irregularities, or other things that have been so much in the headlines in the last couple of years. It seems to have begun, and coincides very closely, with the massive increases in Government spending. The rapid expanse of social programs, and the vast amount of taxpayers' money to support these programs, have resulted in some active and vocal opposition to the increased spending. Many times Government has been unable to furnish explanations for the need for these increases that satisfy the public. In the private sector, when management elects to reinvest earnings or put them to a source that does not result in increased dividends or increased stock values for the stockholders, the people who finance the operation have some very obvious options. They may be able, in a stockholders' meeting, to vote out the managers. At least, they can sell their stock and get out of that particular business. Such an option does not exist for the taxpayer. If he disagrees on a decision of the Government, or those of us in the Government who are responsible for the allocation of resources, he can only grumble, or maybe get some action at the polls. This places a great trust and responsibility upon the Government officials who manage the resource of taxpayers' money, which certainly is not inexhaustible. A burden is placed upon the managers who handle the money and run the programs; and a responsibility is placed upon those of us in the internal audit sector of the Federal Government. There has to be a role for us in building confidence.

New Roles - Increasing Responsibility

The legislative branch has a responsibility spelled out in our Constitution to promote the general welfare of the people. They must enact legislation, and appro-

priate money, to effect social change or respond to their perception of public need, hopefully acting in a prudent manner in so doing. It then becomes the responsibility of those in the executive branch to exercise prudence in the management of organizations, and in finding logical support for the expenditures made. The internal auditor, and in USDA the Office of Audit, is increasingly called upon to take an aggressive role in assisting to develop support for the budget and provide facts upon which logical administrative and budgetary decisions can be made. This has become an increasing demand in USDA with a developing close relationship between the Office of Audit and the other staff offices in the Secretariat which have overall budget and management responsibilities. We have, thus, in the past couple of years gone into a somewhat specialized area that we call budget auditing.

Audit Responses to Changing Needs

In responding to the changing needs of the public for information about government programs, the General Accounting Office in issuing their auditing standards, indicates that a proper program evaluation or audit must deal with **economy, efficiency, and effectiveness** of operations. **Economy** and **efficiency** have to do with whether an organization is managing or utilizing its resources of personnel, property, space, etc., in the best possible way. Evaluations, or audits, are designed to reveal the causes of any inefficiencies, uneconomical practices, inadequacies in management systems, poor administrative procedures, or improper organizational structures. The review of **effectiveness** has to do with determining whether the desired results or benefits are being achieved - whether the objectives established by the Legislative or defined by the Executive agency are being met. This brings us then to another concept in auditing, one which is being stressed very heavily in USDA today. It is results auditing. Everyone - those of us in the Federal sector as well as the public - should be interested in what is being accomplished by

S. D. JONES, JR., is the Southwest Regional Director, Temple, Texas.

the government program, certainly when you consider the increasing amounts of expenditures that are being applied. This kind of evaluation, particularly in the social programs, is not easy and is an art which we are only beginning to learn. One thing we have learned is that different skills are needed in some kind of an interaction to make these kinds of evaluations. All audit organizations are increasingly finding it necessary to add individuals and training that are addressed to a specialist area rather than solely accounting and auditing. OA now has on its staff a statistician; an expert in program evaluation and budget analysis; experts in the use of data processing; and, we are training auditors in such things as economic analysis, results auditing, statistical sampling, and budget analysis.

Management By Objectives

This audit emphasis on program results should have an impact on the effective management of the programs in being. It should also provide input to effect more responsive legislation. So a comparison of what was achieved with a particular program in a particular type of setting, with what was expected to be achieved, should improve the future allocation of resources both through the legislative process and through executive management. This, then, means that defining program objectives becomes critical - and the Secretary has defined key issues and program objectives that he hopes to achieve by the various programs, with the budgetary authorizations that he has asked for. Coupled with this identification of program objectives is also a need for identifying **management improvement** objectives. This, then, brings us to a new impact upon all of us. That is the Management by Objectives program of USDA. The MBO program has been defined by some as **management of results**. For the Office of Audit this has a twofold impact upon us. We must devise and define our own management objectives and take such steps that we can to get the desired results with a minimum of resource. Additionally, we have to look at what the other agencies are doing in the Management by Objectives program, and analyze the results.

Programs Expansion

New authorities granted to USDA Agencies over the past few years have come fast and furious from the Congress. New authorities have been voted and tremendous increases have occurred in some of the existing authorities. Unfortunately, there was not always a corresponding increase in manpower or other resources to meet these increasing demands. OA is no different. USDA workload increases have had a critical impact; we, too, have had to manage without needed expanded resources. This places upon all of us the need for new and innovative approaches. We must be thinking how we can do this volume of work without the corresponding increase in manpower. USDA now has computer centers designed to handle a high volume of data. We in OA have had to learn to not only live with the computerized environment, but to use it to our purposes. We have moved quite a ways down the road in this respect. We get printouts from the computer centers which help us at most of the locations we audit. We are expecting to expand these audits assist packages. Auditors are expanding their capability to use computers for special types of analyses that would assist in their evaluations. These have covered a wide range of data that the computer center was able to provide.

In addition to using the programs and outputs available in computers, the Office of Audit, in June 1975, installed a software package known as STRATA in the computer centers which permits the extraction of special listings of stratified data not readily available from regular outputs.

Management Auditing

Much of what I have been referring to can be covered under a broad umbrella called management auditing. Traditionally, internal audits have been involved in the evaluation of financial transactions and administrative procedures to determine whether funds were collected or spent in accordance with the laws and regulations governing them, commonly referred to as compliance auditing. Compliance auditing is an appraisal which does in fact measure

some degree of meeting organizational objectives. If the auditor determines where the resources went and what was bought with those resources and whether the legislative authorities and regulations were followed, this then is a step in the overall management evaluation. Perhaps the two concepts (management auditing and compliance auditing) are synergistic in nature, a synergism being the effect of two forces which together produce a total output more than what they each produce individually. Thus, the traditional auditing for compliance with the regulations and procedures together with the analysis of program results and objectives brings us in tune with the management environment of today, and provides a better service to the program managers.

Communication

Now for just a little comment about communication. The internal auditor must have open channels of communication with those people who make the decisions that result in the expenditures of the resources. That applies to the auditor and the personnel he is auditing at the county level and at each succeeding higher level throughout the agency and the Department. Coupled with this is the need for complete independence on the part of auditor and the organization for which he works. There must be complete objectivity; thus, he must not be involved in routine day to day types of operations of the agencies. He must be able to stand back and make an objective and independent review and recommendation. This need for objectivity and independence applies to all sectors of the executive branch. Many of the headlines in recent months which have cast some bad light upon the Federal service, and others who are licensed or policed by the Federal service, have revolved around the loss of his independence, or, if you will, in some cases, collusion. Independence must not only be independence in fact, but independence in appearance. Thus, auditors must not only be good, but must look good.

FOIA and the Privacy Act

More and more auditors are coming face to face with

the fact that they need to be absolutely right in what they do and say. Perhaps two of the biggest impacts on auditing recently are the Freedom of Information Act and the Privacy Act. In essence, the Freedom of Information Act says that for most of the things that we do, the public has a right to know. There are, of course, exceptions, but as a general rule, our audits are available to the public. The Privacy Act in essence says that an individual is entitled to know what the Government is maintaining in their records about him and what the Government may be saying about him to the public.

New Federalism

Another new concept that has come to the forefront in recent years is something known as the new Federalism. The new Federalism simply stated means that more and more responsibility for the control and management of federal funds will be placed upon the local level. Traditional government control to which auditors became accustomed over the years becomes less defined and more and more reliance is placed on private CPA firms, State Auditors, and others to make objective and professional reviews on which Government auditors may rely in evaluations of program management. This requires a reorienting of thinking of many who have been in this profession for many years.

Finally, what are we doing internally to improve upon OA management? I mentioned earlier an increased reliance upon the computer equipment and the use of data bases at the computer centers. We have recently installed a new Management Information System which is on the computer at the Washington Computer Center. This system measures our productivity, our performance, and costs of achieving the results. In this day and age none of us can survive without relying to the fullest extent on the special and sophisticated techniques that are available. The Office of Audit wants to improve what we do, but most of all we want to render a service that will help improve what USDA does.

AUDITING IN GSA-- ALWAYS A NEW CHALLENGE!

—Bruce A. Gibson

The Office of Audits in the General Services Administration continually faces new and diverse challenges as GSA moves ahead to improve its Government-wide services. Ninety auditors perform some 400 contract and internal audits annually involving such areas as computer security, telecommunications, leasing and construction. They have effectively used consultants on their audits to obtain an added dimension.

The General Services Administration is a multi-billion dollar conglomerate. Its five major operating elements serve all of the Federal agencies and the public as well. Its service mission includes such far-ranging examples of diversity as,

- informing consumers how to choose products,
- selling surplus stockpiles of commodities—cobalt, shellac, whale oil,
- operating Federal Information Centers,
- controlling foreign gifts to U.S. officials,
- financing a copper mine,
- preparing plans for national emergencies.

As GSA moves ahead to improve its Government-wide services in an environment of increasingly sophisticated technology, the GSA Office of Audits faces new challenges and strives to meet these new audit opportunities to improve management effectiveness and save taxpayer dollars.

From its central headquarters in Washington and the ten regional offices across the country, GSA operates units in all 50 states and several foreign countries. The major operating elements of GSA are briefly described below.

The *Public Buildings Service* designs, builds or leases, operates, protects and maintains most of the Federal buildings in the nation. PBS is the largest landlord in America with 235 million square feet in 10,000 federally-owned or leased buildings. Construction projects valued in the hundred millions are in progress at any one time. Under a new method of funding PBS operations, tenant agencies now pay rent to GSA through a special fund created to finance the leasing, construction and maintenance of buildings.

The *Federal Supply Service* maintains the \$2 billion a year nationwide procurement and distribution system for common-use supplies and equipment; FSS manages a \$250 million inventory with 20 supply depots and 67 self-service supply stores. The 68,000 vehicle Interagency Motor Pool and the 100 commodities in the nation's strategic and critical stockpile are also managed by FSS and the Federal Supply Service is responsible for the Government's personal property utilization, rehabilitation, donation and sales programs.

The *Automated Data and Telecommunications Service* buys, leases and manages Government-wide data processing and communications services, including 900,000 telephones, multimillion dollar computers, and numerous facsimile and teletype writer transmission services via the Federal Telecommunications System. Twelve centralized data processing centers are operated for the use of Federal agencies.

The *National Archives and Records Service* does much more than house the Declaration of Independence, the Constitution and the Bill of Rights. In addition to serving as the nation's records system designer and manager, NARS operates 15 Federal Records Centers and 6 Presidential Libraries which house 15 million cubic feet of records. The National Archives and Records Service also publishes the Federal Register, the U.S. Statutes and Presidential Documents.

The *Federal Preparedness Agency* is GSA's fifth and newest major operating element. It has responsibility for developing policies for emergency preparedness programs including civil crisis, general war or controlled conflicts. FPA's functions include planning

and programing to meet national emergency and crisis situations as well as strategic materials stockpile planning and management.

How is the Office of Audits organized to audit and serve such a widely diversified and dispersed organization? The Director of Audits reports to the highest management level in GSA—The Administrator and his Deputy. The Office of Audits is both a headquarters and a field organization.

The headquarters audit staff includes two divisions—Contract Audits and Internal Audits. Ten field audit offices are co-located at the GSA regional offices. Each field office is headed by a field director who reports directly to the Director of Audits. This structure and arrangement allows the Office of Audits to provide the full range of audit services to all levels of GSA management while independent of operating officials in the agency.

Contract Audits assist procurement officers throughout GSA in their business affairs with contractors, small businesses as well as the industrial giants of the nation. Our auditors provide financial and accounting assistance in a variety of areas including preaward pricing proposals, cost type contracts, claims, price reductions, defective pricing and termination settlements.

Internal Audits assist GSA management in attaining their objectives. Here we examine and evaluate organizations, systems and programs for propriety of financial operations, compliance with laws and regulations, economy and efficiency in managing and using resources and for effectiveness in achieving program goals set by the President, the Congress and GSA management.

There is no doubt that the auditors at GSA face ever-changing professional challenges. For example, during the past year one of our auditors worked on a complex construction change order claim which required a working knowledge of construction phases; his next audit was to assess the adequacy of a new procurement evaluation technique for selecting

architect-engineers and he is now working on a complex cash management problem.

The following are examples of some of the challenging audits we encounter in GSA.

Sale of Excess Material—We were requested to evaluate proposals for the sale of about \$80 million of a metal declared excess to the needs of the Government. The audit included an evaluation of the costs of producing the metal, the costs of converting the surplus metal to a compound with different characteristics, and an economic study of the metal. The prospective purchasers contended that the value of the surplus metal was only equivalent to their cost of manufacturing the compound or about half the market price. The auditors reviewed industry data and found that this contention was not accurate and that there actually was a viable market for the Government's excess metal at higher prices. The auditors concluded that the offered prices were unreasonable and that a comprehensive study should be made to assess the true value of the surplus metal, and establish a new basis for negotiating a reasonable price.

Audit of Computer Security—Our audit of data security features of several Government-wide computer systems administered by GSA, in-house and under contract was unusually sensitive and complex. Our objective was to assess the data security of the systems and the security needs of the Government users.

To provide an expert opinion regarding the technical aspects of computer security, we retained a consulting firm to assist the audit staff. The firm was furnished systems documentation and access to the systems. They examined the computer facilities and visited users which we selected at random. Our auditors and the consultant worked together on the audit. We also discussed the security aspects of the systems with representatives of GSA's Automated Data and Telecommunications Service, the American Telephone and Telegraph Company, and Chesapeake and Potomac Telephone Company.

The audit showed that improvements were needed in such areas as fire protection, security priorities in the event of disaster, and the unauthorized use of remote terminals to access data. The audit approach and resultant recommendations were fully accepted by management, indicating a successful endeavor. Throughout the audit we worked closely with the GAO because of their interest in data security. This proved mutually beneficial through the exchange of information and elimination of audit duplication. As a peripheral benefit of this audit, we distributed a computer security audit guide to a large number of Government agencies.

Audit of Long Term Rental—The purpose of this audit was to evaluate over \$108 million of proposed costs for determining the long term rental cost of a building constructed for the Government. The lease provided annual rental ceilings, but permitted increases if actual audited costs exceeded the ceilings.

The cost data requiring audit covered 10 years and included direct construction management and construction costs, the allocation of designated common areas and systems (i.e. heating, lobbies, walkways, etc.) as specified in the lease, and the allocation of large pools of indirect expenses. Since only about 8% of the common area expenses were actually allocated to the lease, the auditor was faced with a unique problem of materiality and sample selection.

The audit disclosed cost duplications, use of anticipated costs which were not incurred, overallocations of common area costs, and cost overstatements resulting from improper application of lease provisions. As a result of this audit effort, the lessor concurred in a \$25 million reduction in the rental for the initial 20 years.

Commercial Telephone Charges—GSA operates the Government-wide Federal Telecommunications System (FTS). The system achieves economies in providing communications to Government agencies through the consolidated procurement of long

distance lines. Because of a rising trend in commercial billings for non-FTS calls, we selected a random sample of 4,100 commercial toll calls in one Federal region and found that about 1,650 could have been placed on FTS at no cost to the Government. GSA advised the Regional Federal Executive Board and a program was initiated to reduce the commercial tolls. About \$700,000 a year is being saved in one region, and over \$1 million is being saved in the other nine regions. Using agencies benefited from this audit since they reimburse GSA for toll calls. As a result of the audit, clearer instructions on the use of FTS were issued, agencies were advised to monitor their commercial tolls, and more meaningful GSA billing procedures were instituted.

Audit of a Construction Claim—Differing site conditions formed the basis for a \$3 million claim for increased construction costs relating to various foundation problems, including excavation and pilings. The auditor's evaluation of supporting contract records identified significant amounts of excessive costs, duplicate costs and unsupported costs. The auditors also reviewed the contractor's project management and found that the contractor's own management practices resulted in unnecessary and unreasonable expenditures. These conclusions were supported by reviews of correspondence and interviews of employees. These audit techniques were extremely useful in establishing the causes of unnecessary costs and the bases for developing counter-claims to entitlement. In this case, the extension of the audit beyond the basic financial approach produced important results as to the causes of contract problems and excess costs.

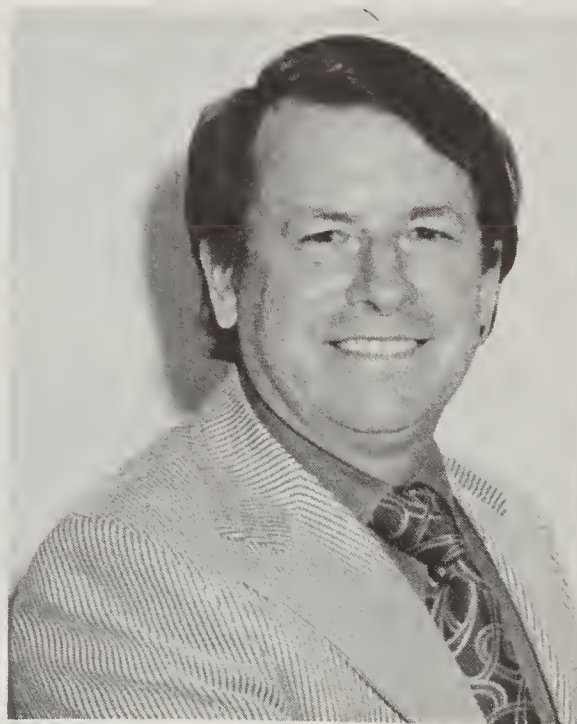
Audit of a Manufacturing Change Order Proposal—Contract specification changes spawned over \$16 million of equitable adjustment and termination claims from a furniture manufacturer. The largest claim was \$10 million and related to a change order proposal for structural modifications to certain office furniture. The auditors faced many complex problems, particularly the contractor's lack of an adequate integrated cost accounting system. In

the absence of reliable records, the auditors made a study of the contractor's total operations to arrive at a range of reasonableness for the change order, since the contract accounted for about 50% of the contractor's work. They also supplemented this approach by using an independent technical consultant to evaluate the engineering and technical aspects of the claim. Sufficient data was developed to question 90% of the amount proposed. The technical consultant was particularly helpful in working with the auditors by relating the submitted cost data to the actual manufacturing processes. In one major opera-

tion in the manufacturing process, the contractor claimed that a revised welding operation took 16 minutes, whereas the consultant proved it would not take more than 4.6 minutes.

These examples are just a glimpse of some of our 400 audits a year. To face the new challenges, we continuously aim to upgrade our training programs, raise our standards, promote creativity, explore uncharted areas, satisfy management and our staff of ninety auditors.

BRUCE A. GIBSON retired from his position as Director, Office of Audits, General Services Administration. This is the first of a two part article by Mr. Gibson. In the second part, he will give us some thoughts on what we can look for in our audits to help GSA do their job.



Bruce A. Gibson

Ejaculation, Premature

If you discovered how to eliminate air pollution for \$1.50 per state, the worst way to accomplish it would be to announce your discovery. You'd be amazed at how many people would oppose your scheme. The best way, if you could stay alive and out of jail, would be just to start eliminating it, state by state.

To get something done involving several departments, divisions or organizations, keep quiet about it. Get the available facts, marshal your allies, think through the opponents' defenses, and then go.

A premature announcement of what you're going to do unsettles potential supporters, gives opponents time to construct real and imaginary defenses, and tends to ensure failure.

It's a poor bureaucrat who can't stall a good idea until even its sponsor is relieved to see it dead and officially buried.

*(UP THE ORGANIZATION by
Robert Townsend, Fawcett
Publications, Inc.)*

RESULTS AUDITING

—Garey Perkins

One of the goals of the Office of Audit has been to institutionalize the use of results auditing in its on-going audit activities. To assist in achieving that objective, an economist has been added to the staff. The job of the economist specialist has been to serve as a consultant to the Headquarters staff and to assist the Regional Office staffs and the auditors in the field in the area of results auditing.

NEW TERM—OLD CONCEPT

Results auditing may be a relatively new term but the concept is not new. A number of previous audits have included some aspects of results auditing. However, numerous examples exist where some of the principals of results measurement were applied but were not followed to their logical conclusion.

Many auditors already think in terms of program results when they formulate, plan and conduct audits. The major emphasis has been and will continue to be to intensify and expand the use of results auditing in those instances where it applies, and to stress the adoption of the “results” philosophy as an additional “tool” to be used by auditors.

A results oriented audit environment within USDA focuses attention on end accomplishments as opposed to ongoing activities. The primary emphasis is on achievement rather than process—measuring results of specific programs. Effective management of USDA programs requires a better job of determining the substantive impact of the various programs.

NEED FOR RESULTS AUDITING

Many program decisions by USDA officials have been made and continue to be made with insufficient evaluation or results information, primarily because of an inadequate system for measuring program results. In numerous instances, measurable objectives or testable assumptions linking activities to accomplishment of objectives have not been well established or clearly defined.

Audit’s primary emphasis should be directed toward conducting full scope audits. GAO defines a full scope audit to contain three elements:

- an examination of financial transactions, accounts, and reports, including an evaluation of compliance with applicable laws and regulations,
- a review of efficiency and economy in the use of resources, and
- a review to determine whether desired results are effectively achieved.

Results auditing deals with the effectiveness of programs as contrasted with the efficiency of program operations. Effectiveness does not necessarily follow from efficiency. A program may be managed very efficiently and yet be ineffective. A program delivery system may have a very low cost per dollar of benefit delivered and have minimal administrative problems and yet fail to reach the target population with sufficient benefits at the time and place envisioned by the legislation or program objectives.

Inquiry into the results or benefits achieved through a particular program should be centered on whether or not the program is meeting established objectives.

Program managers should have clearly defined and well established criteria for measuring the results of their programs or activities. One of the first functions of results auditing is to assess the agency’s system or procedure for measuring its program accomplishments.

MEETING THE NEED—TWO EXAMPLES

Western Region

The Western Region has selected the Perishable Agricultural Commodities Act (PACA) as its results audit.

The purpose of the PACA program is to improve marketing efficiency by reducing risks in promoting more orderly marketing of fresh and frozen fruits and vegetables in interstate and foreign commerce.

The Perishable Agricultural Commodities Act provides for enforcement of contracts and prohibits certain unfair trading practices, including misbranding. Enforcement is achieved through a system of licenses which may be suspended or revoked for

GAREY B. PERKINS, Economist, left OA in March 1976, to work for the Extension Service in Mississippi.

violations. The Produce Agency Act prohibits the dumping of consigned fresh farm products without reasonable cause and requires accurate accounting for such consigned products. Each commission merchant, dealer, and broker operating subject to the PAC Act must be licensed in order to do business. Reparation complaints filed under PACA are initially handled on an informal basis and amicable settlements are arranged in the majority of cases. When informal settlements cannot be arranged, cases are handled as formal complaints with final adjudication by the Department's Judicial Officer. Administration for both the PACA and the PAA (except for services by Office of General Counsel) is financed entirely from annual PACA license fees.

The audit objective is to determine the impacts of the program as they relate to the stated objectives.

Southwest Region

FmHA Low Income Housing Repair Program (Sec. 504): The program objective is to provide very low income homeowners in rural areas an opportunity to make essential minor repairs to their homes to make them safe and to remove health hazards to the family or the community.

Audit objectives are as follows:

- Determine whether program objectives are being achieved. FmHA Instruction 444.3 states: "The basic objective of the FmHA in making Section 504 loans is to assist owner-occupants in rural areas - who do not qualify for Section 502 loans - to repair or improve their dwellings in order to make such dwellings safe and sanitary and remove hazards to the health of the occupants, their families, or the Community."
- Ascertain the reasons for large variations in ratio of Section 504 loans to total rural housing loans in various districts and in selected county offices. Whether or not the program is underemphasized in some districts and counties, and overemphasized in others.
- Determine whether loans are made in cases where the dwellings are so deteriorated that they are not worth the cost of rehabilitation.

- Determine whether applicants for Section 502 loans are encouraged to apply instead for Section 504 loan in appropriate cases.

Summary

The concept of results auditing is not new; the method of implementation is. In the past, audits were not always followed through to their logical conclusion. USDA program officials need the information that can be obtained by results auditing as an added source of information on which to evaluate the worth of their programs. The Office of Audit is moving to meet this need. Results audits have been started in several Regions to provide training to the auditors and to furnish program officials with needed information.

DEADLINE

TO RECEIVE CONSIDERATION

FOR PUBLICATION

IN THE NEXT ISSUE,

ALL SUBMISSIONS

SHOULD BE SENT

TO REACH THE EDITOR

BY

OCTOBER 1, 1976

THE IMPORTANCE OF BEING ME

—Sheilah Gregory

From our national Declaration of Independence to women's liberation, independence is probably one of today's most widely used words. Webster defines it as being self-governing, free, not supported by another, showing self-reliance. But, no matter how you describe it, most auditors find independence does not come naturally, especially for a female. I've found that just saying I'm independent doesn't make me so—it's a job I have to work at each day.

I considered myself a very independent and self-reliant person when I had a "cushiony" job as an accountant with Farmers Home Administration in St. Louis, Missouri, but found I had to develop a dependency on myself I never realized existed when I transferred to a job as field auditor. When I say field, I mean that literally: slogging through all kinds of mischief viewing crops and sewer systems and counting cows.

My initiation came when, as an audit trainee, I was sent to hold my first one-to-one interview with the president of a combination construction and lumber company in a small Arkansas town. I was shaking like a leaf on a windy day as I began reading from my list of prepared questions. Then, to my amazement, I discovered I wasn't the only nervous one. The gentleman began to explain that, due to a turnover of personnel, he was not fully aware of all the procedures or methods his company used in building FmHA-financed housing. When he reached for a pencil to demonstrate a point, I noticed his pencil was shaking faster than the one I was making notes with. It was then I realized that each individual, whether auditor, auditee, or whatever, lacks self-confidence to some extent and, when totally on his own, reacts in different ways—some with aggression, others just shake.

For a female, independence takes on other meanings that require more awareness, and sometimes extra nerve, that many men take for granted. Packing a suitcase for a week or more away from home has become a challenge. It has become a science of how much I can get into the minimum space given; the overflow goes in the trunk and back seat of the car.

Naturally, one of the first things I forgot was a necessity—my toothbrush, due to the habit of putting it back on the shelf. Another challenging area is maintenance



nance of the car, and on some of those country roads prayer really helps. In two years I've had two flat tires (one, I changed) and one starter burnout. My independence blossomed when the mechanic wouldn't believe me about the starter until he had to replace it.

Eating still requires some inventive thinking: Should I go before or after the noon rush, take the mail along and read it, or just watch people? Of course, if country cafes would hire waiters instead of waitresses, tipping might not be so painful for us females. Some auditors, I understand, fix meals in their motel rooms, but my creative cooking, as well as my trunk space for carrying utensils, is limited for constant travel.

Speaking of motel rooms, I've learned not to get too excited about how people react to a traveling woman, or to the incidents that can occur. For instance, I've been given the key to someone else's room and walked in on them. (I apologized and excused myself.) Another time, after spending two full weeks at a motel in Oklahoma, the managers asked me to keep an eye on the office while they went visiting for a couple of hours. Well, at least it made me feel like one of the family!

Whatever the occasion or wherever the job assignment, I've found it can be a challenge not only to develop my skills as an auditor, but to develop my independence while maintaining my femininity.

SHEILAH GREGORY is an auditor working out of Little Rock, Arkansas.

IN BASKET

A SELF-PORTRAIT OF DEBBIE

This issue of PULSE is our salute to America's 200th. We are indebted to Deborah Bigby for her fine contribution—the art work. Debbie, the daughter of one of USDA's finest, Cardoza Bigby, is an art student attending Washington Tech. We like her sense of perspective, charm and good humor.



SHARING

Although The Editor considers himself a brilliant thinker and writer (notice how The Editor is always capitalized) he is willing to share space on these two pages with those whose thoughts are equally as profound. Reluctantly. Given enough submissions from you, we might be able to crowd him off these pages entirely. Doesn't that idea have a certain winsome charm?

ODDS AND ENDS

The following item probably doesn't belong here. It certainly is not odd and, to hazard a guess, not the end. In case you missed it, OA graduate J. Paul Bolduc was recently appointed USDA's Assistant Secretary for Administration. To get a better grasp of what a billion means, consider this: a **million** seconds passes in 12 days; it takes 32 years to

tick off a **billion** seconds. PULSE welcomes Deputy Director Darrell E. Fleming to the **Elite Corp**—the Office of Audit. A good auditor is an amalgam of many things. The presence of one, enthusiasm, makes up for a shortage of others. Enthusiasm—if you have it, thank God for it, if you don't, get down on your knees and pray for it. In case you wondered how Congress works, this extract from the **Washington Star** should shed some light. Recently, the **Star** reported that the clerk of the House left that job to become president of the Slurry Transport Association. "The association is a trade group of companies interested in the transportation of coal through pipelines by grinding it and mixing it with water. The method is similar to that used by the House before passing legislation on to the Senate." We are indebted to Dan Winger for this closing thought: A lot of guys who think their boss is dumb would be out of a job if he were any smarter.

IF SOME MEN SPOKE THE WAY THEY WRITE

On arriving home after a hard day of letters and reports, the tired businessman spoke something like this:

"Herewith my hat and coat. Please file them for future reference.

"Has dinner been finalized? Good. Please hold it in abeyance until further advised. An associate has furnished me with the formula for a revolutionary kind of long, cool one, with the request that I research it and report my findings at the earliest opportunity. Therefore this project requires my immediate attention.

"However, should you require my presence to discuss any urgent problems, feel free to contact me. I'll be in executive session in the basement. Be assured that I will alert you before completion of my undertaking so that you will have ample time to bring your efforts to a successful conclusion, after which I will be happy to attend the regular meeting with you at the table."

—Phoenix Flame

NO TRESPASSING

There are all kinds of clubs and special groups but none more important than OA's Millionth. Membership in this club is granted upon use of an expression at least one million times. Several made it during March 1976. We congratulate:

Roy Neal (GPR) — "blew-'em out of the tub."

Bill Stephanson (Hq.) — "Mut and Jeff Audits."

Henry Richardson (SER) — "now don't get your bowels in an uproar."

Dick Harwick (Hq.) — "do you get my point?"

Chico Ota (WR) — "I asked you nice-like, so now do it right."

Jack Cunningham (SWR-retired) — "bird's nest on the ground."

Bill Dickson (Hq.) — "in terms of."

Bob Miller (Hq.) — "give or take a million."
Know all men and women by these presents:

That exclusive use of the above phrases are henceforth the sole property of the perpetrators. Ascendancy to the Millionth Club bestows that honor in perpetuity.

QUOTING LINDA QUOTING BARZUN

In her February 1976 column, "Editor's Choice," Linda Martin, in **the DCAA bulletin** (Defense Contract Audit Agency, Cameron Station, Va.) writes "I have to smile now and then whenever I come across a nonsexist word in my day-to-day editing. I recently came across "people power" in a speech I was editing. I didn't know then whether I smiled because I was pleased to see it or because I was surprised this particular auditor used it. It must have been the latter because words like "manpower," "mankind," and "manmade" don't upset me. I feel no urge to change them when I'm editing. Here is where I agree with Jacques Barzun, recently retired professor of cultural history at Columbia University, who stated: ". . . mankind in modern usage is not the opposite of womankind . . . mankind means and has always meant humanity entire."

We agree—to a point—with her final words in the article. "More and more government employees are converting to nonsexist vocabulary, and our Agency employees also have that option. However, it is still a very sensitive matter, and no writer should be forced into using or not using it—regardless of how the supervisor, reviewer, or editor may personally feel."

Linda, we too have had our doubts about what we feel are cosmetic devices—substituting "work-days" for "mandays", "he" slash "she" and whatever. However, although the writer may not have to consider the opinions of his supervisor, reviewer, or editor in such matters, doesn't he have to consider those, in theory at least, of his audience?

UP THE BRICK WALL - V

The WEISSINGER-UNDERWOOD TRIPLE OVERKILL PRINCIPLE asserts that, since no solution to any problem can be "as easily reached as all that," the basic problem must be reevaluated and reassembled. The purpose of the reevaluation process is to upgrade the problem to a larger measure of complexity. Once this has happened, one or more task forces and committees can be established and outside consultants hired.

MAGIC POINT is reached when the problem solving process results in decreasing unemployment by one-tenth of one percent and the issuance of a thirty-three volume report.

TEASERS

Since nine out of the ten people in the survey got these wrong, we decided on a full scale audit. Here are the first two audit steps:

What was the Vice President's name in 1925?

A teacher asked her class of forty, "How many of you know who wrote the Declaration of Independence?" She was surprised to see that only half of the class raised their hands. What's the answer?

Answers

Twenty

Nelson Rockefeller

REFLECTIONS ON SEVENTY YEARS - A SENSE OF PROPORTION

After 23 years with USDA as an auditor, Herbert A. Johnson retired leaving these thoughts with his compatriots in the Great Plains Region and now - with all of us.

I have come to believe as a result of experience that qualities of mind are more fundamental in life than any doctrine, that feelings are more vital than formulas. In the ultimate analysis, it is how we conduct ourselves and how we behave that matters, not so much what we profess and declare. And our conduct depends on our mental attitude and our feelings, our convictions, our likes and our dislikes and also our conception of our interests.

"We cannot live in harmony with others unless we are at peace with ourselves."

To me, peace of mind seems more important than exercise of power or material success. Let me hasten to add this does not imply a cult of poverty or denunciation of worldly goods. It would be gross hypocrisy if I said so. What I mean is, that I would not care for anything if I felt I would not be inwardly happy by having it or being in it.

We cannot live in harmony with others unless we are at peace with ourselves. Different people, no doubt, feel happy in different ways and in different degrees. Our own feelings of happiness might also vary from time to time as we grow older. But fundamentally, we have to have sufficient inner harmony before we can achieve anything, or even live usefully.

"... we can, if we will, learn something from everyone. . ."

In order to do this, we must not expect too much of life. The world was not made for us, though through our egoism we think so. We must therefore cultivate a

sense of proportion about men and affairs. This sense of proportion would teach us a certain degree of self-restraint, moderation, and even a spirit of resignation, in respect of things which cannot change and must be endured.

Out of such a sense of proportion must grow genuine humility and intellectual honesty. We must not presume that whatever little we might have accomplished, it could all have been the results of our own efforts. I am aware that we can, if we will, learn something from everyone and that we should be somewhat modest in trying to preach. We should be less strict in judging others and less lenient in judging ourselves.

"... a sense of humor . . enables us not to take life too seriously or give trivial things undue importance."

Above all, this sense of proportion is the obverse of a true sense of humor; a sense of humor which enables us not to take life too seriously or give trivial things undue importance. Only experience can cultivate such an attitude. And it can come if we do not fret and fume at the slightest provocation and do not exaggerate our own importance in the scheme of things. In other words, this demands a sense of humor, all human endeavor being short of perfection, we can afford to laugh at our inability to achieve it. We are for a brief moment in this world - beautiful but sad. In a short time we must leave it. The best of it is not merely in the sense of enjoying what is best in it but also by bringing some ray of hope to others. Life is too short, I feel, for quarrels and intrigues, for bitterness and malice and hatred. I must confess I do not have the spirit of the crusader, the zeal of a reformer. It is enough if in the course of my own insignificant life, I can to some extent, imbibe some of the qualities which I value.

THE SAN FRANCISCO CONNECTION

—Ann Withers

There is an approach to sampling that is appropriate whenever it is desired to generalize about the field from which the sample was drawn on the basis of sample results. It is objective and defensible. It can provide a more accurate method of drawing conclusions about a large mass of data than the examination of all of the data. It can save time and money. This approach, as we learned from Dr. Herbert Arkin some twelve years ago, is statistical sampling. We have been using this approach since then but somewhat sporadically. Now we have gotten ourselves in full gear. Here is an update on where we are and where we are going.

INTRODUCTION

During the past two years, Office of Audit has rapidly expanded its use of statistical sampling to meet audit objectives. Beginning with efforts centered in the Food Stamp and Child Nutrition Programs, proficiency and confidence increased as a greater number of audits in these programs were conducted by statistical methods. Now new areas for application have been identified, and all Regions are using these methods successfully to evaluate a variety of USDA programs. Sample results show whether or not programs are operating satisfactorily. Where they are not, problem areas are identified and statistical estimates are used to focus attention on them in terms of dollars lost and rates of error.

IMPRESSIVE RESULTS

A number of recently completed efforts yielded some impressive results:

- **Food Stamp Program (FSP)** - Three State Agencies have been billed for program losses in four project areas, three in the Western Region and one in the Midwest. Three of the project areas were reviewed for one month, the other for two months with resulting bills totaling over \$1 million. One State has been requested to remit a total of \$936,400 for two of these project areas. It is likely that bills will be issued soon based on additional samples being completed in these two Regions. Further, Northeast, Southeast and Southwest are conducting similar tests to cover sizable segments of participating households

with the expectation that the Food and Nutrition Service will support assessment of claims if similar conditions are found.

- **National School Lunch Program (NSLP)** - Northeast Region has estimated that at least \$7.3 million in excessive claims for free lunches were made for 1972-73 school year by a large metropolitan center in the East. As a result, the State Agency is still withholding \$8 million from that city's Board of Education. Midwest Region reviewed claims submitted to the Indiana State Agency using a statistical sample. Based on results, the Agency has implemented a computerized system of handling claims which includes edit checks to eliminate errors detected by the sample. Further, the sample showed excess profit margins for milk were resulting in overcharges to children. Provision has been made to adjust claims for such excess as well as other improper charges.
- **Farmers Home Administration (FmHA)** - A nationwide sample of Interest Credit Agreements, with Great Plains as audit control point, has revealed initial errors in agreements to be more than \$20 million and a potential for excess credit of more than \$40 million during the life of the agreement, usually 2 years. A Task Force, consisting of three State Directors, three Rural Housing Chiefs and three County Supervisors, was established to review deficiencies and discrepancies identified by the sample. The Agency

ANN R. WITHERS, OA's Statistician, is headquartered in San Francisco.

Administrator has fully endorsed OA findings in a directive issued February 3 this year. Recommendations for immediate action are District training sessions for all County Office staff members to rectify errors as well as clarification of instructions and forms, with the question of excess credit pending.

IN THE WORKS

Other reports will be issued shortly giving sample results for applications in progress. Some of these are also in Food Stamp and Child Nutrition Programs but new areas have been identified for statistical tests as well:

- **Food Stamp Program (FSP)** - All Regions are completing or planning samples to estimate program loss resulting from errors in the certification process. A secondary objective is to determine percent of errors in basis of issuance and other certification activities. Generally, this is done by selecting either redeemed Authorizations to Purchase (ATP) or households which participated in a project area for a specified period. Several Regions are expanding coverage by including more than one project area. Western Region has just completed an audit of the program for the entire State of Washington, while Midwest, Southwest, and Southeast have audits of groupings of Food Stamp areas in progress. Some of these samples will result in recommendations for assessment of claims where program losses are excessive; others will provide a basis against which measurement of program change can be made in subsequent audits.
- **National School Lunch Program** - Two Regions have recent applications in the NSLP. Midwest has completed an audit in which a statistical sample of claims for reimbursement in Minnesota shows payments approved by the State Agency to be questionable. As part of a coordinated audit of the Program in Kentucky, Southeast is using a statistical sample to test

adequacy of claims review and editing at the State Agency level.

- **Kansas FmHA Insured Emergency Loans** - During the 1974 crop year, the Eastern one-half of Kansas experienced a severe crop loss due to unusually dry weather. As a result, 37 counties in this area were declared a disaster area. To determine whether or not individual loans were made in accordance with FmHA instructions, Great Plains has selected a statistical sample from the 952 Insured Emergency Loans. Estimates will include the dollar value of any overdisbursements as well as the percent loans improper due to errors in computing the amount of loss incurred during the drought.
- **Forest Service Recreation Information Management System (RIM)** - A nationwide sample of recreation sites has been completed with Western Region as audit control point. The objective was to verify accuracy of data stored in the system through review of source documents for sample sites. Preliminary discussions with Forest Service indicate that action will be taken on the basis of sample results to require an improvement in accuracy of cost data and other information provided by all sites.
- **Agricultural Marketing Service (AMS)** - Great Plains, as audit control point, has used discovery sampling with STRATA applications to update tapes and select samples in cotton warehouse examinations as part of a nationwide program audit of the U.S. Warehouse Act. In doing so, OA has demonstrated two points to the Warehouse Service Branch, which is responsible for cotton stored under that Act. First, the Branch has the capability of using statistical sampling. Secondly, this method should be sufficiently effective for its purposes in warehouse examinations. Current policy is to make 100% examination by counting and identifying each bale by receipt number. OA has recommended that the Warehouse Service Branch develop and test sampling plans to save time on examinations.

- **FmHA Undeliverable Past Due Notices** - Midwest has conducted a nationwide review of these notices returned from January 16 through February 6, 1976. A small sample will be used to establish whether or not control is being exercised over occupancy of FmHA-financed housing. For borrowers to whom these notices are sent, estimates include the percent of houses vacated by the borrower; the percent for which liquidation was either not initiated or not completed on a timely basis; the percentage of property currently occupied by other than the borrower; and the percentage leased.
- **FmHA Conditional Commitments** - For an FmHA borrower to receive a 100% loan, the house purchased must be subjected to an FmHA inspection. Otherwise, only a 90% loan generally can be made. Midwest has selected a sample of conditional commitments applied for in Fiscal Year 1975 by builders in Illinois to determine whether or not 100% financing of uninspected houses is a problem.
- **Kansas Agricultural Stabilization and Conservation Service (ASCS)** - Great Plains selected a sample of 1975 Low Yield Disaster Program payments disbursed as of December 17, 1975, to determine the percent improper due to three causes: erroneous producer reports of crop production; incorrect use of reported production data in the payment computation; and not making yield adjustments for production practices which normally result in a yield lower than the established yield. Further, the dollar value of improper payments will be estimated.

COMPARATIVE AUDIT COSTS

As OA opts for a statistical approach to auditing in more areas, the question of cost in comparison with what practically can be accomplished by this method arises. There is concern particularly in those audits where judgment sampling has customarily been used to meet objectives. However, when the intention is to describe conditions for some segment of an audit

entity without examining all items, statistical sampling is the proper approach. Therefore, weight has been given increasingly to the advantages of using statistical methods, both to preserve objectivity and to state audit results with a high degree of certainty. In some cases, the statistical sample requires more time than would be spent on the judgment sample; in others, less. Of course, the first audits using statistical methods may take more time as Auditors familiarize themselves with steps necessary to give valid estimates. However, experience gained results in reduced costs for the same type audit and carries over, to a large extent, into different applications. In audits with potential for repayment of funds, benefits associated with cost are most easily stated. For others, in which monetary results or error rates are used for information and impact rather than recommending assessment of claim, benefits are more difficult to measure. It may require a time lapse with subsequent audit to determine fully their effectiveness.

To date, there is a limited amount of data for making comparisons between statistical and judgment sampling approaches in specific situations. However, because more statistical samples have been made in Food Stamp audits than in any other single area, there is sufficient information for illustration. Western Region has compiled data available to show what estimates of program loss have been made; what is the net potential recovery; and how this approach compares with judgment samples in prior audits. For all samples shown, the objective was to estimate program loss for both Non-Public Assistance and Public Assistance cases during a given period of time.

For nine counties and one State on which data are available, Table I outlines details of statistical samples while Table II then gives a comparison of man days spent, sample sizes and monetary results between judgment and statistical samples in seven of the nine counties. For the statistical samples, monetary results are lower limits of projections in Table I. Data available indicate judgment samples resulted in an average of only \$37 per man day of audit effort compared with \$1,433 for statistical samples.

TABLE I
STATISTICAL SAMPLE DETAILS

Entity	Sample Units With Improper Basis of Issuance	Bonus Issuance During Test Month(s)	Statistical Projection of Overissued (Program Loss at 90% Two Sided Confidence Level)										
			Universe		Sample		Low Limit	%	Point Est.	%	High Limit	%	
			Test Mo(s).	ATP's	HH's	ATP's							HH's
County One	7-73	299,000	283			126	45	\$7,776,710	9.3	\$919,126	11.8	\$1,118,260	14.4
County Two	5-74		14,808		107	52	49	915,213	5.6	86,495	9.5	121,869	13.3
County ¹ Three	6 & 7-74	84,833		230		91	40		6.3	412,177	12.	607,913	17.6
						114	50	3,447,362	7.6	456,715	13.2	652,620	18.9
County ¹ Four	8 & 9-74	76,624		52		14	27		1.7	120,093	4.	189,874	6.4
						32	62	2,968,529	5.2	230,240	7.8	307,108	10.3
County Five	11 & 12-74	65,593		227		60	26	2,378,244	3.3	123,817	5.2	168,419	7.1
County Six	1 & 2-75	25,710		50		17	34	997,657	1.	32,137	3.2	54,254	5.4
County Seven	7-74 thru 1-75												
			114,273		53	11	21	10,313,000	.3	197,282	1.9	357,940	3.5
County Eight	3 & 4-75	11,228		180		44	24	477,407	3.5	26,760	5.6	36,765	7.7
State One	2, 3, & 4-75	324,259		225		76	34	18,324,432	11.6	2,949,300	16.1	3,773,600	20.5
County Nine	4, 5, & 6-75	237,212		260		127	49	7,079,624	13.1	1,174,100	16.6	1,418,900	20.0

¹In these Counties we made two separate projections because of a extension to up-date the basis of issuance due to this cost-of-living increase. specific problem with AFDC cost-of-living increased granted in July 1974. The top line figure is the one on which a claim was made, or in the case of Subsequent to our audits, FNS granted all counties in that state a 6-month County 4 was used to terminate our review and not press for a claim.

TABLE II

NET POTENTIAL RECOVERY

		Projected Program Loss (low limit) - Potential Recovery	Approximate Direct And Overhead Costs To Perform Audit	Net Potential Recovery
County One	(2714-216-SF)	\$ 720	\$ 64,080	\$ 655,920
County Two	(2714-280-SF)	51,100	27,314	23,786
County Three	(2714-284-SF)	216,400	12,628	203,772
County Four	(2714-300-SF)	50,281	8,645	41,636
County Five	(2714-338-SF)	79,200	9,756	69,444
County Six	(2714-348-SF)	10,000	4,320	5,680
County Seven	(2715-111-SF)	36,000	4,051	31,949
County Eight	(2714-353-SF)	16,700	7,380	9,320
State One	(2713-30-SF)	2,125,000	30,590	2,094,410
County Nine	(2714-358-SF)	929,300	23,180	906,120
TOTAL		<u>\$4,233,981</u>	<u>\$191,944</u>	<u>\$4,042,037</u>

TABLE III

COMPARISON OF JUDGMENT SAMPLE AUDITS
TO STATISTICAL SAMPLE AUDITS

	Prior Audit (Judgment Sample)			Current Audit (Stat. Sample)			Monetary Results Per Man Day of Audit Effort	
	M/D's	Sample Size	Monetary Results	M/D's	Sample Size	Monetary Results	Judgment Sample	Stat. Sample
County One	106	102	1	356	283	\$ 720,000	---	\$2,022
County Two	58	45	1	150	107	51,100	---	341
County Three	66	75	\$ 7,676	70	230	216,400	\$116	3,091
County Four	90	58	2	48	52	50,281	---	1,048
			(SWAG)					
County Five	78	104	7,500	109	227	79,200	96	727
County Six	58	45	2,294	24	50	10,000	40	417
County Eight	41	61	1,161	41	180	16,700	28	407
Total(s)	497	490	\$18,631	798	1,129	\$,1,143,681	\$ 37	\$1,433

¹No monetary results reported because they could not be realistically determined.

²This report has not been finally closed yet because

of a number of problems. There will no doubt be some monetary results to report, but at this time they could not be readily determined.

DETERMINING COSTS

In determining where expense for statistical sampling may increase over that for judgment, three factors must be considered: audit approach; evaluation of results; and sample size. There are basically only two differences in audit approach for statistical as opposed to judgment sampling. First, statistical sampling requires a method of selecting records or observations for examination that ensures randomness. Secondly, data for making statistical estimates must be collected consistently according to defined audit procedures from those units selected at random. Neither of these differences adds much to the cost of auditing except for additional time that could be spent locating sampling units. However, this cost often can be controlled through sample design. Selection methods to ensure randomness are inexpensive also since OA has programs stored in two of its computer centers which can generate even large samples in less than 5 or 6 minutes for less than \$10.00. Cost for data collecting should be about equal to that for judgment samples of the same size, with possible increase for consistency review.

With respect to expense of evaluating sample results, once data are provided, each estimate generally takes only a few minutes to complete using a scientific

calculator with statistical functions of the type available in several Regions. In a short time, statistical projections will be facilitated further by a set of sample programs developed by the Health, Education and Welfare Audit Agency. These programs, which can be accessed through portable computer terminals located in all Regions, will reduce the already nominal cost of selecting and evaluating statistical samples. Finally, sample sizes required for statistical estimates can be a source of increased expense, but as the preceding tables show, this is likely to be offset by sample results.

LONG RANGE BENEFITS

In audits where resources are limited, some Regions are using random selection for even very small samples. In this way, objectivity is assured and the possibility exists for obtaining some meaningful information for the money spent. As we measure long-range effects of more statistical samples—both small and large—benefits should be easier to quantify for making comparisons between statistical and judgment sampling approaches to OA audits. Results, so far, are bearing out our conviction that statistical sampling is well worth any additional effort involved.

PULSATIONS

Satchel Paige, one time baseball great, once offered advice somewhat along these lines: "Don't look behind, someone might be gaining on you." Now, GPR's own Larry Cooper wants to revise that thus: 'Look behind, someone might no longer be sleeping in the back seat.' He came by that bit of philosophy the hard way. Larry had to retrace his steps - all 90 miles of them - to pick up his wife and son at a gas station. When he stopped for gasoline and a restroom visit, his family was sleeping in the back seat. When he turned into his home driveway and got no answer to his cherry, "Monica! Kevin! Wake up, we're home," he knew he was in for an interesting

discussion with Monica. She and Kevin had visited the ladies room - he drove off without them.

And then, there's the Director's brand new tee shirt. Presented to him by Regional and Division Directors at a recent meeting, it does honor to his many years of toil writing notes in the margins of countless reports he has reviewed. One sample inscription on the tee shirt, "Lord, why me??"

Lastly, anyone interested in learning the proper procedure for climbing the side of a house in Puerto Rico to inspect the roof, should address their inquiries to Regional Director Charles Riser, Hyattsville, Maryland.

MBO: POWER!

This is the second of a series of three MBO's on sex, money and power. It was drawn up after a reading of Power! by Michael Korda—a most readable and entertaining book on the best seller lists for the past several months.

Mission Statement

The mission is acquisition of security, money, sex, fame through use of power.

Role

Win power games
Exert power over others
Execute power over oneself
Use power to direct and manipulate situations and events.

Effectiveness Areas

Control
Manipulation

Forecast

The acquisition of power and the creative use of power will result in security, money, sex and fame.

Goal

To acquire and use power.

Objective

To acquire power within twelve months at a cost not to exceed amount leading to personal bankruptcy and to use power to achieve money, sex, security and/or fame for our remaining lifetime.

Program

Develop appropriate facial expressions, body movements and voice control.
Develop the appearance of energy, vitality and good health.
Develop the ability to establish territorial rights.
Develop JFK's "grace under pressure."
Identify and reside in power areas.
Develop ability to listen to office gossip dispassionately.
Apply power game moves - weakness or strength - appropriate to situation.
Expand areas of responsibility.
Direct information flow to your desk.

Schedule

Master control of facial expressions and voice tone within six weeks by daily practice before mirror and by use of tape recorder.
Master the act of yoga within six weeks.
Jog and/or play handball outdoors and use sunlamp daily to give appearance of energy, vitality and good health.
Determine power color, identify personal effects and decor and use to control space within three months. Practice at home by usurping den, bedroom, bathroom.

"Grace under pressure" will be mastered within six weeks. Practice at home with wife and kids.

Identify power structure by charting "tables of organization and power, determine power circle seating and power circle formation at office parties, chart power lines of communication, identify route of gossip flow within one month.

Transfer ability to listen to gossip dispassionately to office. This skill is already mastered at home listening to wife.

Immediately transfer ability to use moves in games of weakness from home to office. Skill is already mastered in response to wife's and/or kids demands for new furniture, new clothes, trip to the zoo, etc.

Immediately transfer ability to respond to a question with a question from home to office. Skill is already mastered in response to wife's and/or kids' requests - "Do you think I'm made of money?"

Expand areas of responsibility until all possible areas are engulfed within twelve months.

Acquire copies of all information and initial, directing flow to and from your office within six months.

Budget

Tape Recorder \$60

Sunlamp \$80

Sweat shirt and pants \$35

Sweaters \$15

Yoga lessons \$40

Original Audubon prints \$25,000

Wardrobe \$25,000

Controlling

Establish standards for achieving objective

Measure performance of activities that will obtain objective

Take corrective action on activities

Form your own company

Marry the boss's daughter

Seduce the boss's spouse (if she is part of the power circle).

Measurement of Objective Achievement

Constipation

Rise in blood pressure

Rise in serum cholesterol

Corner office

Polished Gucci loafers

Mercedes 600 limousine

Creeping helplessness

Secretary uses IBM Selectric II typewriter

File cabinet with lock

Full calendar

Sofa bed in office

Magic gloss

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PULSE offers a \$50.00 U.S. Savings Bond for the best MBO on money selected by a panel of three judges. Entries must be received by The Editor on or before October 1, 1976.



CAPITOL TRACK

PERSONNEL:

Pay:

The method for determining pay for Federal employees will change if the recommendations from the Panel on Federal Compensation are adopted. A major change would replace the present General Schedule, which covers white-collar employees, with a Clerical/Technical Service, and a Professional/Administrative/Management/Executive Service. The Clerical/Technical Service would be paid at local or other geographical rates. Within-grade pay advancement for employees in the P/A/M/E Service would be based on merit rather than length of service. Most of the significant changes recommended would require legislation, thus it is difficult to try to forecast the outcome.

Annual Leave:

Public Law 94-172 restores annual leave lost due to certain unjustified or unwarranted personnel actions.

IPA:

H.R. 4415, passed by the House and referred to the Senate would improve the Intergovernmental Personnel Act of 1970 and extend its coverage to the Trust Territory of the Pacific Islands.

Grants to State and Local Governments:

Treasury Circular 1082, Notification to States of Grant-In-Aid Information, requires internal audit coverage to assure compliance with the provisions of the Circular. The Office of Audit, as part of its audit coverage, will review agency compliance with TC-1082 and USDA Administrative Regulations.

1977 Budget

The Congressional Budget and Impoundment Control Act of 1974, PL 93-344, required that the House and Senate Budget committees report by April 15 the first concurrent resolution setting targets for federal spending and revenues in fiscal 1977. The new budget procedures involve many changes in the way Congress has traditionally decided on spending and revenue-raising issues.

—Amos E. Martinez, OMF/OIA

SPOTLIGHT

*Woman, they say, was only made of man;
Methinks 'tis strange they should be so unlike!
It may be all the best was cut away,
To make the woman, and the naught was left
Behind with him.*

Beaumont and Fletcher: Coxcomb.

The Spotlight this time around focuses on the women of the organization whose presence ensures the efficiency and effectiveness of the Office of Audit. Here is offered but a representative sampling of Women in OA. Starting in the upper left hand corner of the next two pages:

Page 1, Left to Right

Top Row: Debbie Sumner, MWR; Florence Linder, MWR; Hazel Cook, SER.

Row 2: Nadine Purnell, GPR; Teresa Shedrick, SER; Donna Theising, MWR; Vera Crossley, MWR.

Row 3: Louise Silvius, GPR; Marion Parnel, MWR; Florence Kral, GPR.

Row 4: Molly Noernberg, GPR; Sharon Collins, MWR; Sandy White, GPR.

Row 5: Stella Lawson, MWR; Evelyn Godek, MWR; Beatrice Heyn, MWR; Lucille Wise, GPR.

Page 2, Left to Right

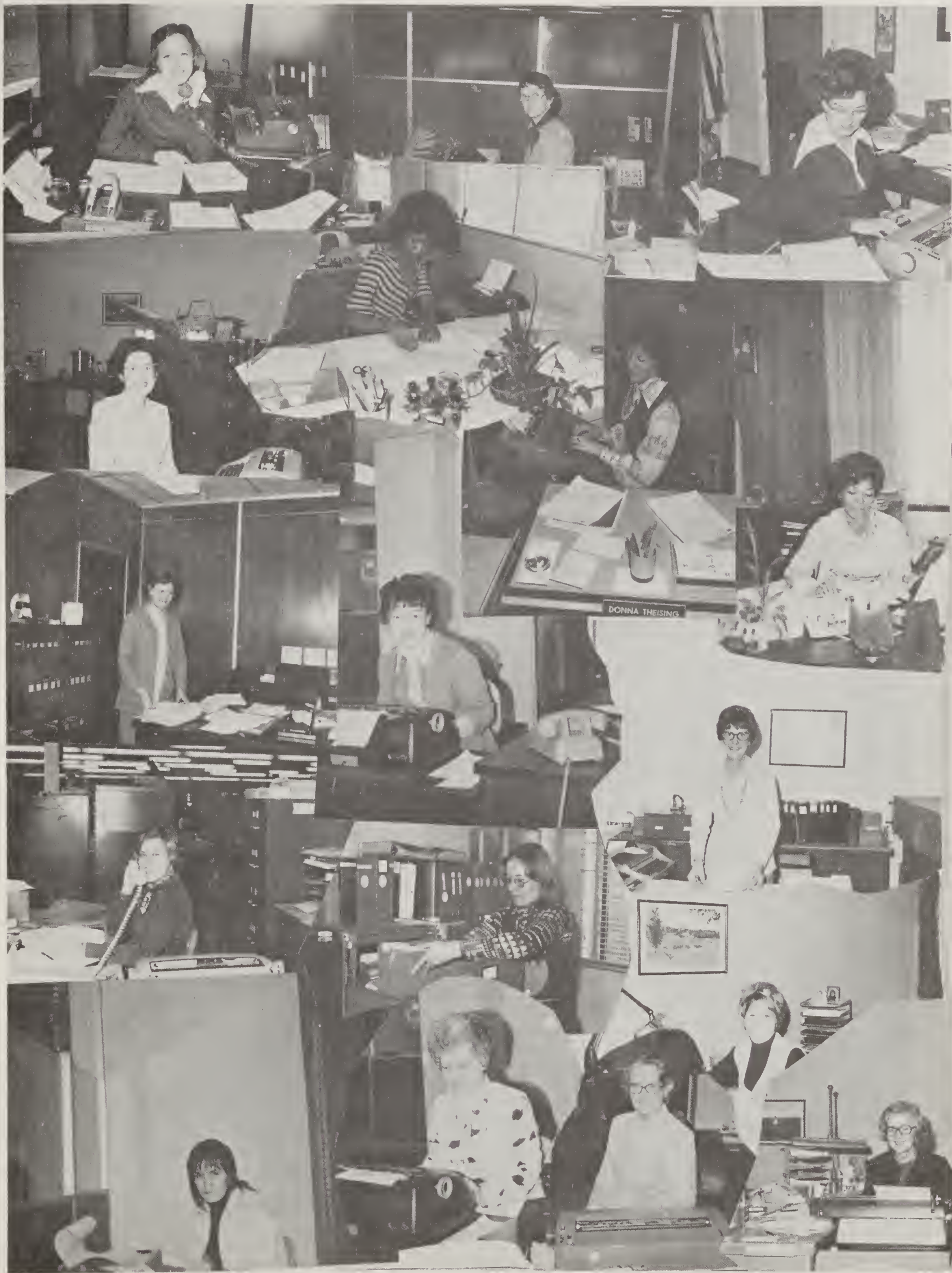
Top Row: Ann Gartner, WR; Liz Glover, WR; Gene Ogilvie, WR; Josephine Riley, WR; Chico Ota, WR.

Row 2: Doreen Yip and Lori Ng, WR; Mary Ellen Taylor, WR; Betty Buice, SER; Mary Mulheirn, WR; Sara Phillips, WR.

Row 3: Barbara Lester, SER; Virginia Alberici, MWR; Gloria Pittman, GPR; Donna Jenson, GPR.

Row 4: Standing: Cindy Bailey, Jo Faye Hastings, Irene McClain, Anne Poythress, Joan Henager; seated: Dorothy Vitek - SWR.

Margaret McGinty and Claudia Woolfolk, Hq.





PERSPECTIVE

INTERNAL AUDITING - THE EXTRA DIMENSION



*Charles R. Riser
Northeast Regional Director*

On the 200th birthday of our Nation, all Americans should pause to reflect on where this great Nation has come from, where it stands today, and where it is headed. If past is truly prologue, much should have been learned that will help our leaders in shaping America's future.

America was founded on the basis of the highest of principles and precepts—"One Nation, under God, with liberty and justice for all." These precepts have made us not only an invincible power for the past 200 years, but also a Nation that the entire world has looked to for leadership and help in time of crisis.

Under the American system, shortcomings in our society that are allowed to persist are corrected by an aroused public. The ground swell of public indignity strips away political priorities, legalistic prerogatives, and judicial precedents, and gets down to the single basics of right and wrong.

One of the functions of Government is to see that minor ailments of the society do not become epidemics of major proportion—to see that the causes (not the symptoms) of these afflictions are diagnosed and treated, so that the public does not have to become involved.

In recent years we have seen disturbing evidence of corruption in some areas of Government, industry, and in the private sector. These shortcomings have been very forcefully brought to our attention in Agriculture by recent disclosure of improper practices in connection with some of our programs. It is most gratifying to see that the Government is reacting swiftly and firmly to seek out and correct irregularities as problem areas are disclosed. It is also gratifying to know that Federal auditors are playing a vital role in detecting these irregularities. But it is not enough for the internal auditor to merely detect existing corruption. The damage is often already done. The challenge to the auditor is to prevent corruption from occurring. He must insure that the programs, procedures, the methods, techniques and systems are conceived and controlled in such a manner that there is a minimal opportunity for wrongdoing. Secondly, he must insure that in the event infractions do occur, the system of review is sufficient to bring about early detection and swift corrective action.

History teaches that nations and civilizations fall, not from high taxes, or costly wars won or lost, but from corruption. In America, through the years several areas of corruption have been overcome, most by inherent governmental devices; some because of overwhelming public sentiment. The system has worked; and it has worked well. And if the auditing profession does its job, the system should work even better in the future.

The auditing profession adds another dimension to good Government and to a better society, not available a short time ago. The need for independent, objective evaluations of the ever increasing number of voluminous, sensitive, and highly complex programs, is being more and more recognized. Today, there is an unprecedented opportunity for the auditor to make a positive, worthwhile contribution to society.

In this bicentennial year, let each of us rededicate ourselves to a better Federal service.

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